

NAVIGATOR POINTE ACADEMY

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
AND
FINANCIAL STATEMENTS**

June 30, 2006

HANSEN, BARNETT & MAXWELL

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

NAVIGATOR POINTE ACADEMY

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Registered with the Public Company
Accounting Oversight Board



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Navigator Pointe Academy

We have audited the accompanying statement of financial position of Navigator Pointe Academy (the "Academy") as of June 30, 2006 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Navigator Pointe Academy as of June 30, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006 on our consideration of Navigator Pointe Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Academy. The Reconciliation of the Statement of Financial Position of the Modified Accrual Basis to the Full Accrual Basis on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Reconciliation of the Statement of Financial Position of the Modified Accrual Basis to the Full Accrual Basis has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Hansen Barnett & Maxwell".

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 28, 2006

NAVIGATOR POINTE ACADEMY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

Current Assets

Cash	\$ 411,794
Total Current Assets	<u>411,794</u>

Property and equipment, (net of accumulated depreciation of \$11,476)	94,715
Deposits	<u>36,765</u>

Total Assets	<u><u>\$ 543,274</u></u>
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable - trade	\$ 6,980
Accrued payroll and merit pay	98,082
Accrued employee retirement liability	<u>30,000</u>
Total Liabilities	135,062

Net Assets

Unrestricted:	
Capital assets, net of accumulated depreciation	94,715
Undesignated	<u>313,497</u>
Total Net Assets	<u>408,212</u>

Total Liabilities and Net Assets	<u><u>\$ 543,274</u></u>
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The accompanying notes are an integral part of these financial statements.

**NAVIGATOR POINTE ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Revenue and Support

Federal	\$ 191,653
State	2,281,844
Donations	1,000
Interest	1,618
Special Events, net of expenses of \$25,340	20,206
Total unrestricted revenues and support	<u>2,496,321</u>

Expenses

Program Services - Charter School	
Salaries	1,287,083
Benefits	71,509
Professional and technical services	4,312
Purchased property services	315,600
Other purchased services	82,425
Supplies and materials	280,598
Property	56,900
Total program services expenses	<u>2,098,427</u>

Administrative Expenses

Salaries	102,425
Benefits	2,988
Professional and technical services	1,105
Purchased property services	6,420
Other purchased services	911
Supplies and materials	13,586
Total administrative expenses	<u>127,435</u>

Total Expenses 2,225,862

Increase in unrestricted net assets 270,459

Net assets at beginning of year 137,753

Net assets at end of year \$ 408,212

The accompanying notes are an integral part of these financial statements.

**NAVIGATOR POINTE ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

Cash Flows From Operating Activities	
Increase in net assets	\$ 270,459
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	11,476
Changes in assets and liabilities:	
Accounts payable	6,980
Accrued liabilities	128,082
Net Cash From Operating Activities	<u>416,997</u>
 Cash Flows From Investing Activities	
Purchase of property and equipment	<u>(102,993)</u>
 Net Cash From Investing Activities	<u>(102,993)</u>
 Cash Flows From Financing Activities	<u>-</u>
 Net Increase in Cash and Cash Equivalents	314,004
 Cash and Cash Equivalents at Beginning of Period	<u>97,790</u>
 Cash and Cash Equivalents at End of Period	<u><u>\$ 411,794</u></u>
 Cash Paid for Interest	 <u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

NAVIGATOR POINTE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Navigator Pointe Academy (the “Academy”) was incorporated January 21, 2005 and began operations in June of 2005 under the laws of the State of Utah and operates as a non-profit organization under section 501(c)(3) of the Internal Revenue Code. The Academy is a charter school located in West Jordan, Utah. The school currently has students enrolled in classes from kindergarten through ninth grade. The stated mission of the charter school is “Navigator Pointe Academy provides a challenging, engaging, classical curriculum in a safe, orderly environment; focuses on the academic achievement of each student; instills in students the ideals and habits of virtuous living; and inspires children to use their minds well.”

Financial Statement Presentation – The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Basis of Accounting — The accompanying financial statements have been prepared on the full accrual basis of accounting. Revenues are recognized as discussed below. Expenses generally are recorded when a liability is incurred.

Revenue Recognition

State Funding – The Academy receives funding from the State of Utah as administered by the Utah State Office of Education based on the number of students enrolled in its school. The State provides unrestricted funding for normal school operations and restricted funds for specific school-related activities or functions. Unrestricted funding is recognized as revenue when received. Funding for which qualifying expenses have not been incurred is recorded as temporarily restricted net assets in the Academy’s Statement of Financial Position.

Federal Grants – The Academy has received federal charter school grants, which are paid through the Utah State Office of Education. Funds are generally received on a reimbursement basis and, accordingly, revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met.

Contributions and Donated Services – Unrestricted contributions are recognized as revenue when received. Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Academy would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year ended June 30, 2006 because items did not meet the definition above. Restricted contributions received are recorded as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are recognized as revenue when the terms of the restrictions are met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Due to their nature, actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents are defined as demand deposits, savings, money market accounts, and certificates of deposit with original maturities of three months or less.

Concentration of Credit Risk — The Academy maintains its cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. The Academy's carrying amount of bank deposits at June 30, 2006 is \$411,794 and the bank balance is \$422,369, \$106,912 of which is covered by federal depository insurance. No deposits are collateralized, nor is it required by state statute.

During the year ended June 30, 2006, the Academy received a substantial amount of its support, approximately 90% and 8%, from the Utah State Office of Education and Federal Public Charter School grants, respectively. The loss of support from these major sources of funds could have an adverse effect on the Academy's programs and activities.

Allocated Expenses — Expenses by function have been allocated among program and supporting service classifications on the basis of time records and on estimates made by the Academy's management.

Capital Assets – Capital assets include depreciable assets and include equipment and furniture. The Academy defines capital assets as assets with an initial, individual cost of more than \$2,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance or repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Equipment and furniture of the Academy are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office/Computer equipment	3 to 10
Leasehold improvements	10 to 20

During the year ended June 30, 2006, the academy recognized \$11,476 of depreciation expense.

Advertising – The Academy follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the year ended June 30, 2006 was \$126.

Income Taxes – The Academy qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Academy qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation under Section 509(a)(2). Income determined to be unrelated business income would be taxable.

NOTE 2 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets				
Construction in Progress	\$ -	\$ 9,425	\$ -	\$ 9,425
Leashold Improvements	-	7,831	-	7,831
Equipment	3,198	85,737	-	88,935
Total Capital Assets	<u>3,198</u>	<u>102,993</u>	<u>-</u>	<u>106,191</u>
Accumulated Depreciation				
Leashold Improvements	-	(288)	-	(288)
Equipment	-	(11,188)	-	(11,188)
Total Depreciation	<u>-</u>	<u>(11,476)</u>	<u>-</u>	<u>(11,476)</u>
Net Capital Assets	<u>\$ 3,198</u>	<u>\$ 91,517</u>	<u>\$ -</u>	<u>\$ 94,715</u>

NOTE 3 – MERIT PAY

All full-time staff members of the Academy are eligible to receive merit pay. Staff members are eligible for merit pay based upon the performance of their work during the school year. The merit pay will be calculated and paid out in June of each year. Factors used in determining the amount of merit pay per employee are the following: performance evaluations, attendance, and director's discretion. The merit pay schedule per employee is determined by the school director, business administrator and the governing board. Merit pay for the year ended June 30, 2006 was \$40,021.

NOTE 4 – PROFESSIONAL EMPLOYER ORGANIZATION

At inception, the Academy entered into an agreement with a professional employer organization to provide off-site human resource services. All employees of the Academy are employed by the professional employer organization. The professional employer organization administers payroll, employee benefits and other related expenses and assists in personnel and related compliance requirements. During the current year the Academy switched providers of this service. Fees for services under this agreement were \$37,622 during the year ended June 30, 2006.

NOTE 5 – OPERATING LEASE

During 2005, the Academy entered into a lease for office and classroom space. The original lease was for twenty years in duration for \$30,000 per month to \$36,765 per month. The monthly rent increases every five years. The Academy is also required to pay a proportionate share of property tax, insurance expenses and common area expenses as additional monthly rent of \$4,000 per month. Rent expense for the year ended June 30, 2006 was \$283,050. This lease expires in 2025.

Future rental commitments are as follows:

Year Ended June 30,	
2007	360,000
2008	360,000
2009	360,000
2010	379,950
2011	385,200
Thereafter	5,502,570
Total	<u>\$7,347,720</u>

NOTE 6 – RETIREMENT PLANS

At inception, the Academy entered into a participation agreement with its professional employer organization to offer a defined contribution, tax deferred retirement plan under Section 401(k) of the Internal Revenue Code. The Plan is administered by the professional employer organization (PEO). All full-time staff members 18 years of age or older that have been employed for 30 days are eligible to participate in the Plan. The PEO automatically contributes 3% for each eligible employee, and has a matching contribution of 100% on up to 6% contributed by each employee to the plan. The cost of the matching contribution will be passed on to and paid by the Academy. The employer's contributions vest immediately upon issuance. During the year ended June 30, 2006 the Academy recognized \$36,875 in retirement expense contribution.

**SUPPLEMENTARY
INFORMATION**

Navigator Pointe Academy
Reconciliation of the Statement of Financial Position of the Modified Accrual Basis
to the Full Accrual Basis
June 30, 2006

Amounts reported for the modified accrual basis are different because:

Total net assets - modified accrual \$ 313,497

Capital assets used in the Academy's activities are not financial resources and, therefore, are not reported in the modified accrual basis:

	Cost of the assets	\$ 106,191	
	Accumulated depreciation	<u>(11,476)</u>	<u>\$ 94,715</u>
Total net assets - full accrual			<u>\$ 408,212</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Navigator Pointe Academy

We have audited the accompanying financial statements of Navigator Pointe Academy ("the Academy") for the year ended June 30, 2006, and have issued our report thereon dated September 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Navigator Pointe Academy in a separate letter dated September 28, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and the Utah State Office of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hansen Barnett & Maxwell

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 28, 2006

HANSEN, BARNETT & MAXWELL

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INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors
Navigator Pointe Academy

We have audited the financial statements of Navigator Pointe Academy, a nonprofit corporation, for the year ended June 30, 2006, and have issued our report thereon dated September 28, 2006. As part of our audit, we have audited Navigator Pointe Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; reporting; special tests and provisions applicable to its major State assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. Navigator Pointe Academy received the following major State assistance program from the State of Utah:

Minimum School Program (State Office of Education)

The management of Navigator Pointe Academy is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about Navigator Pointe Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with requirements referred to above.

In our opinion, Navigator Pointe Academy complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2006.

A handwritten signature in cursive script that reads "Hansen Barnett & Maxwell".

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 28, 2006